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MEDIA

Sony Terms With Spotify Uncovered in Contract

By BEN SISARIO MAY 24, 2015

Online streaming may be the music industry's biggest source of growth. But as Sony is learning, when the business arrangements behind it are made public it can expose serious rifts.

Sony, the second-largest record company in the world, found some of its digital strategy revealed last week when a now outdated licensing contract with Spotify was leaked online and one of its own artists, the French D.J. Madeon, criticized the company harshly for its approach to SoundCloud, another popular streaming site.

The contract, published by the technology news site *The Verge*, was written on Sony's letterhead and signed by representatives of both companies in January 2011, shortly before Spotify opened in the United States. The 41-page document, which covered two years with an option for a third, revealed terms that had been the source of speculation in the music world for years. It also has intensified longstanding debates about the amount of control major record labels have over Spotify, and how much money makes its way to their artists.

"The leak of this contract only clarifies the level at which Sony and the other major companies are benefiting from the success of companies like Spotify," said Larry Miller, a former digital executive who is an associate professor of music business at New York University's Steinhardt School.

The contract included up to \$42.5 million in advance payments and a \$9 million advertising credit for Sony, as well as a complex formula for determining Sony's royalty payments each year. A "most favored nation" clause, common in digital contracts, obligated Spotify to pay Sony higher rates if other labels struck more favorable deals.

Spotify declined to comment. A Sony spokeswoman said, "We are not going to comment on an illegally obtained, out-of-date document." The Verge has since taken down the contract "as a courtesy to Sony," said Lauren Fisher, general counsel for Vox Media, the publication's owner.

Spotify, which has 15 million paying users and another 45 million who listen free with advertising, has been a frequent target for criticism over the economics behind digital music. The company says that on average it pays between 0.6 cent and 0.84 cent per stream, which many artists have complained is unacceptable. (In the leaked contract — which has been superseded by other agreements — Sony is guaranteed a minimum of 0.225 cent per stream.) Last year, Taylor Swift pulled her music from Spotify because the company would not keep it only in its paid level.

While the contract addresses how much money Spotify pays Sony, the leak focuses attention on another side of the industry's economics — how much of their fees Sony and other labels in turn pay to their artists. The International Music Managers Forum, an industry group, wrote an open letter to European and American authorities using the leak as an example of why more openness was needed. "Instead of mystery deals hidden from the artists whose copyrighted creations the deals exploit," the group wrote, "there should be an obligation for transparency."

Sony has said that it "shares with its recording artists all unallocated income from advances, nonrecoupable payments and minimum revenue guarantees" from digital outlets.

Spotify, which is privately owned, is valued at more than \$8 billion. Among those who own minority stakes in the company are Sony and the other big labels, Universal and Warner.

Sony's relationships with digital services were further exposed last week

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over its dealings with SoundCloud, a free streaming site popular with musicians because it allows songs to be easily shared and embedded on social networks. SoundCloud has come under pressure from record companies because most of the millions of songs it hosts are unlicensed and therefore produce no royalties.

This month, after licensing negotiations broke down between Sony and SoundCloud, it emerged that the label had begun removing tracks by many of its artists, including Adele, Kesha and Hozier, according to two people with knowledge of the talks who spoke on the condition of anonymity because they were not authorized to discuss them.

The friction between Sony and SoundCloud spilled into view when Madeon, a 20-year-old D.J. and producer prodigy whose music is released through Columbia, a Sony imprint, complained in messages on Twitter last week that the company was about to pull down his music “against my will.” “Thank you SoundCloud for being such a great discovery platform over the past five years,” he wrote. “Well done Sony for holding your own artists hostage.”

Madeon — whose real name is Hugo Leclercq — noted that it was his label’s corporate bosses he was angry with, not the label itself. “Lots of love for my label Columbia of course, they’re great,” Madeon added. “Less love for Sony Corporate’s disconnected-from-reality strategy.”

Last year SoundCloud began to introduce advertising, but it has so far signed licensing deals only with Warner. Its discussions with Sony and Universal have gone through stops and starts, according to music executives, and its talks with Sony in particular have reached an impasse. According to SoundCloud, it has so far paid \$2 million in royalties through its new deals.

Sony declined to comment about SoundCloud and Madeon. In a statement, SoundCloud aligned itself with musicians: “We’ve always put control in the hands of creators, and anyone who makes music and audio can decide when and how they want to share it with fans.”

For a music industry that many may associate with its lawsuits against thousands of listeners in the mid-2000s over unauthorized file-sharing, Sony’s

tactics with Spotify and SoundCloud may be more bad P.R.

“This industry has struggled with public opinion,” said Mr. Miller, of N.Y.U., “and this story doesn’t help.”

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